Background

The ongoing food crisis has translated into significant increases in food price inflation in the region and at times civil unrest. The crisis has raised concerns about the desire to improve food security and even to explore the possibility of ‘Arab’ self-sufficiency by securing large areas of potentially productive land in non-MENA countries such as Sudan for production. How to address food security and ensure reliable and consistent national food supplies are issues of critical importance to governments in the region. More than fifty percent of the food consumed in the Middle East and North Africa (MENA) region is imported, making it the largest food importing region in the world. High rates of population growth combined with severely constrained water and land resources suggest that this dependence on imports will increase or remain at current levels for the foreseeable future. And world markets for grains are thin, for example wheat exports represent 18% of world production with the supply side of the market dominated by six countries who account for 75% of wheat exports.

Higher food prices may represent an opportunity for net food producers in MENA’s rural areas. Forty-three percent of the MENA region’s population is rural. Poverty is generally higher in rural areas than in urban areas, and rural areas lag in development and services. The rural sector is a reservoir of labour and a producer of food for the urban sector. Rural-urban disparities are an important cause of migration towards urban areas and other countries. An often complicated system of subsidies and trade protection shelters farmers from higher farm gate prices and helps sustain the status quo.

One of the cornerstones of the World Bank’s agriculture and rural development (ARD) strategy for MENA is to help countries improve food security and manage market volatility. Ultimately farming efficiency needs to improve and rural populations need to move towards higher productivity, higher income and higher wage activities. The strategy aims at supporting rural people who decide to migrate in making the best use of the new opportunities made available to them. These two objectives are achieved by creating the conditions for competitive agriculture and the emergence of non-farm income activities to diversify economic activity in rural areas, and by providing rural people with critical human assets namely education, health and information, that can help maximize economic opportunities available to them either in situ or elsewhere.

The strategic importance of the rural sector in MENA is fourfold:

- **Food Security.** Fifty percent of MENA’s food is imported. High food prices and international market volatility mean domestic agriculture has taken on strategic importance in all the food producing countries in the region. Non-food producing
countries, such as the GCC, are looking at ways of securing land in third party countries to produce part of their food needs.

- **Poverty.** Seventy percent of MENA’s poor live in rural areas. Chronic rural poverty is not generalised in MENA (with the exception of Yemen). It is concentrated in certain social groups, such as households headed by women, the landless and farm labourers, and in defined regions, such as Upper Egypt, two specific regions in Iraq, the mountains and steppes plains of Morocco or north-west Tunisia. This gives MENA governments the opportunity to adopt clearly-targeted rural and social development programs as instruments for the elimination of poverty.

- **Unemployment.** The region’s leaders see urban youth unemployment as a priority political challenge: the unemployment rate in MENA is 13% compared with 6% for all middle-income countries. While rural underdevelopment is fuelling migration to the cities, the urban sector is not able to create enough jobs to absorb the increasing labour force.

- **Growth and liberalisation.** The agriculture of MENA countries has the potential to become highly competitive for both export and domestic markets, helping diversify the sources of employment. MENA countries have a comparative advantage in producing fruit and vegetables – provided that domestic institutions and regulation allow efficient marketing chains. Across the region, the modern horticulture sector is becoming a key force for market-oriented reforms. In Egypt’s West Delta, for example, export farmers are driving a full cost-recovery irrigation scheme.

- **Water.** Good water-resource management depends on good agricultural irrigation policies. Water withdrawals in the MENA region represent 67% of renewable water resources, compared with 8% for the developing world overall. Eighty-five percent of MENA’s water-use is for irrigation. Water security depends on how agriculture uses water. More water-efficient agricultural practices will save water that can be used elsewhere. Climate change, bringing an expected 20% reduction in rainfall, makes agricultural water-use efficiency even more critical.

**Key Issues in the Sector**

*Mounting food import bills and unreliable markets is fuelling interest in increasing cereal production.* Several MENA countries are trying to expand grain production as a way of decreasing exposure to international food markets. While such a strategy is rationale and gains in productivity are possible, it requires overcoming significant land and water constraints. The cost of pursuing such a strategy may be prohibitive and there may be better market based strategies for securing food supplies and reducing exposure to international price volatility.

*Government spending on blanket subsidies instead of targeted investments:* Most MENA countries, for example Iraq, Morocco, Tunisia, Egypt, and Syria, offer their farmers guaranteed prices for staple and industrial crops, as well as a large gamut of input subsidies. The political aims are to prop up traditional farming, to placate landowning elites and to reduce dependence on foreign supplies. Fertiliser, pesticide, fuel (for pumps) and irrigation subsidies are also common across the region. Such untargeted subsidies are not focussed on the poor, have a fiscal cost, reward low-value cropping, and encourage the overuse of water.

*Depletion of water resources:* Governments have been much more focussed on damming water than on helping farmers to use it efficiently. Water tariffs and cereals, fuel and input subsidies, which are becoming very expensive with the energy crisis, have encouraged the
use of water for low-value activities. But some countries are now experimenting with more purposive water management approaches (tariff policies, subsidies for water-saving equipment, integrated water resource planning).

**Weak rural institutional structures and organisations:**

- **From top-down to responsiveness:** Farmers need more responsive research and extension services. Farmers’ associations and co-operatives have often been an arm of government and do not act as the vital two-way link between farmers and the private sector or government. Yet for smallholders to be able to compete and take advantage of lucrative markets, they need efficient organizations of their own.

- **Contradictory objectives:** Agriculture ministries are typically mandated to modernise the sector on the one hand and to preserve traditional farming communities on the other. Often the livelihood-protection policies (trade protection; regulation of markets; input, water and cereal subsidies) discourage modernisation. Decoupling farm support from production, as in Turkey, Mexico and the European Union, could allow agricultural policy instruments to concentrate on sector modernisation objectives.

- **No institutional home for rural economic development:** Rural livelihoods are usually the mandate of agriculture ministries. But supporting spatial development requires buy-in from infrastructure and social service ministries as well. Moreover, MENA’s rural poor, who are often landless, labourers or women, are not effectively reached by the region’s farm subsidies and productivity enhancement policies, and tend to depend on opportunities in the non-farm rural informal sector. So a major challenge is to identify an institutional home for rural development. Experience from Egypt, Morocco and Tunisia shows that strong leadership from sub-national and local authorities, linked to some degree of deconcentration and decentralization, is an important strategic approach to improve rural development.

**Weak marketing structures:** Marketing has been too much a question of delivering basic commodities to government agencies. However, marketing dairy products, fruit and vegetables, especially abroad for the latter, requires farmers and their associations, agro-processing companies, wholesalers, transporters and the government to combine to assure quality, predictability and speed of supply.

**Land tenure:** Population growth and inheritance laws contribute to the fragmentation of landholdings and informal tenure arrangements. In addition, the tradition in many MENA countries is against the division of inherited land, leading to farmers cultivating under a “joint-ownership” situation with their co-heirs, which is a major impediment to farm investment. This rules out mechanisation, access to formal credit for many farmers and even investing in inputs.

**Access to credit:** The risk inherent in smallholder farming, bad loans, inefficiencies in the banking sector, and lack of security exclude many farmers from formal credit. Governments tend to see credit policy in terms of capping the interest rate, which benefits farmers who can get credit already but discourages banks from lending to poorer clients.

**Farmer education:** “Traditional” farmers tend to be among the least educated and oldest segments of the population. MENA governments need to invest in rural education and professional training, both formal and informal, to help them adjust to the managerial and technological complexities of producing for the modern urban market and to help other family members to access better off-farm income, or to be better equipped to migrate to cities.
**Procurement of cereals on international markets:** Many governments have very rudimentary systems for procuring cereals on thin international markets. MENA governments need to modernize the techniques they use in order to reduce their exposure to international price volatility and enhance the reliability of supply.

**World Bank Recommendations**

The Bank’s policy recommendations emphasize the following points:

- Analyze the trade-offs of investing in cereal production and consider improving the use of financial instruments (hedging, futures, and others) to manage exposure to international price volatility.
- Make markets work by allowing price signals to reach farmers and encourage them to invest in agriculture.
- Target rural investment upon disadvantaged areas, combining sectoral approaches and local development approaches;
- Allocate investment in irrigation together with investments to help farmers improve their agriculture practices, linked to market opportunities, and involving farmers in irrigation-management;
- Identify and removing bottlenecks in domestic and export marketing chains, in collaboration with farmer and private sector organisations, and improving the rural investment climate; and
- A greater role for the private sector in determining prices and shifting the crop from farm gate to table;
- Involving farmers and the private sector in the provision of services to agriculture, such as research and extension.

**Increasing food prices.** The recent rise in food prices has brought the agriculture sectors to the forefront of economic policy and political discourse. This is particularly so in MENA countries which, for the most part, are net food importers and import a large share of their most important food staples, such as soft wheat. Panicked reactions from policy makers ranged from measures to keep domestic prices down to restrictions of exports or regulations of domestic markets. Higher agriculture prices should give farmers incentives to increase production, preferably through gains in productivity. However, misguided government interventions can sometimes produce the opposite effect: by keeping domestic prices low not only will they prevent farmers from raising their incomes, but may actually lead them to produce less of the commodity in question. Overtime, through substitution effects, higher prices for some commodities are likely to lead to an increase in prices for most agriculture commodities. It is important for governments to allow farmers to respond to market signals, which could be the best way to address food staple scarcity over the longer term. For shorter term concerns governments need to upgrade their food security strategies, either through improved management of inventories, or by reliance on market mechanisms such as future markets or long term contracts.

**World Bank Lending/AAA Activities**

Increasingly the Bank is channelling its support to agriculture in the region through upstream policy advice (Morocco, Tunisia, and Syria) and is sharpening the focus of its agriculture and rural development activities towards:

- Moving “upstream,” with more emphasis on sector reviews, sectoral policies and linkages to cross-sectoral economic reform programs. This work highlights the
importance of agriculture for reducing the rural-urban divide and promoting export diversification. It takes into account the recent challenge of increased global food and fuel prices, and their impact on public finance and national food security.

- Emphasis on **spatial development** and community driven development (CDD) programs to support the livelihoods of clearly-defined pockets of rural poverty. The Bank is supporting the implementation of Morocco’s National Human Development Initiative (INDH) as well as other rural CDD-type projects in Morocco, Yemen and Tunisia.

- Focus on the **linkages between agriculture and efficient water use**, for example, in the forthcoming Water Sector Investment Project 2 in Tunisia and the Oum-Rbia irrigation and agriculture modernization project in Morocco.

All dollar figures are in US dollar equivalents. **September 2008**

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